

Association providing required workmen's compensation benefits. An association formed by a corporation to provide workmen's compensation benefits that the corporation was already obligated to pay under State law does not qualify for exemption under section 501(c)(9) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(9) of the Internal Revenue Code of 1954.

The organization is an association formed by a commercial corporation to provide workmen's compensation benefits to its employees. All employees of the corporation are members of the association.

The association processes and pays claims for workmen's compensation benefits. The state in which the corporation operates has a statute that imposes an obligation on all employers to pay such benefits. The statute was in existence prior to the formation of the association. The amount of the awards paid by the association is based on the state statute which provides for the payment of set amounts for specific injuries. The corporation remains ultimately liable for all employee claims and will pay any claim the association is unable to pay.

The association is funded entirely through contributions from the corporation. Employees make no payments to it. The association's disbursements are for the claims and other normal operating expenses.

Section 501(c)(9) of the Code provides for the exemption from Federal income tax of voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents, or designated beneficiaries, if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Since the employees of the corporation were already entitled under state statute to the payment of workmen's compensation benefits, the formation of the association did not result in the receipt of any additional employee benefits. The association merely ensures the discharge of an obligation already imposed by statute upon the corporation.

Accordingly, the association does not qualify for exemption from Federal income tax under section 501(c)(9) of the Code.